

REBUTTAL TESTIMONY
OF
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SENIOR ECONOMIST
ILLINOIS COMMERCE COMMISSION
ENERGY DIVISION -- POLICY SECTION

ILLINOIS POWER COMPANY

d/b/a AmerenIP

DOCKET NO. 04-0476

GENERAL RATE CASE

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1 **I. Introduction**

2 Q. State your name and business address.

3 A. Charles C. S. Iannello, Illinois Commerce Commission, 527 East Capitol
4 Avenue, Springfield, Illinois, 62701.

5

6 Q. Are you the same Charles C. S. Iannello that previously testified in this
7 case?

8 A. Yes.

9

10 Q. What is the purpose of your rebuttal testimony?

11 A. The purpose of my rebuttal testimony is to address various issues raised
12 in the rebuttal testimonies of Company witnesses Brian W. Blackburn,
13 Karen R. Althoff, and Dottie R. Anderson. I also address various issues
14 raised in the direct testimonies of Constellation NewEnergy - Gas Division,
15 LLC ("CNE") witnesses Juliana Claussen and Troy Monroe and Illinois
16 Industrial Energy Consumer witnesses John Mallinckrodt and Alan
17 Rosenberg. Specifically, I address various issues related to Service
18 Classification 76, Transportation of Customer-Owned Gas with Best
19 Efforts Back-up, ("SC 76") and other transportation-related issues.

20

21 **II. Daily Balancing of SC 76 Customer Accounts**

22 Q. In your direct testimony, you support a shift from monthly to daily
23 balancing contingent on the adoption of other proposals related to cashout

24 provisions, real-time metering, imbalance penalties and group balancing.

25 Does the Company agree to adopt your recommendations with respect to
26 cashout provisions, real-time metering, and group balancing?

27 A. Yes. As I discuss below, the Company adopts my recommendations with
28 some minor changes. Given the Company's adoption of my
29 recommended daily balancing provisions, I support a move from monthly
30 to daily balancing.

31

32 **III. Cashout of Imbalances for SC 76 Customers**

33 Q. In your direct testimony, you recommended a less stringent cashout
34 schedule than the Company's proposed cashout schedule. Did the
35 Company adopt your less stringent cashout schedule?

36 A. Yes. On page 2 of IP Exhibit 8.6, the Company adopted my proposed
37 cashout schedule with one additional caveat. Under my proposed cashout
38 schedule, imbalances less than or equal to plus or minus 20% would be
39 cashed out at 100% of the Chicago Citygate daily index.¹ Imbalances
40 greater than plus or minus 20% would be cashed out at a 10% penalty.
41 The Company proposes to allow SC 76 customers to carry imbalances
42 less than or equal to plus or minus 20% from one day to the next during
43 the course of the month. Any incremental amount of daily imbalance
44 outside of the 20% deadband would be cashed out on a daily basis.
45 Positive daily imbalances greater than 20% would be purchased by the

46 Company at 90% of the Chicago citygate daily price. Negative daily
47 imbalances less than negative 20% would be sold to the customer by the
48 Company at 110% of the Chicago citygate daily price. At the end of the
49 month, the Company proposes to cashout the sum of the daily imbalances
50 that fell within the 20% deadband. As proposed in the Company's direct
51 testimony and also adopted in my direct testimony, monthly imbalances
52 within plus or minus 10% would be cashed out at 100% of the average
53 Chicago Citygate daily price.² Positive monthly imbalances of greater than
54 10% would be purchased by the Company at 90% of the average Chicago
55 citygate daily price. Negative monthly imbalances of less than 10% would
56 be sold to the customer by the Company at 110% of the average Chicago
57 citygate daily price.

58

59 Q. Do you support the Company's proposal to cashout accumulated
60 imbalances within the 20% deadband at the end of the month?

61 A. Yes. In my direct testimony, I proposed to cash out imbalances within the
62 20% deadband at 100% of the market index. So, customers with
63 imbalances in the 20% deadband would not be penalized because their
64 imbalance would be cashed out at a price that represents the prevailing
65 price of obtaining supplies in the daily spot market. Allowing suppliers to
66 carry imbalances within the 20% deadband from day to day throughout the

¹ Daily imbalances are measured as the absolute value of the difference between daily usage and daily nominations divided by the usage. This number is then converted to a percentage to determine the percentage of daily imbalance.

² Monthly imbalances are measured as the difference between the sum of the daily imbalances inside the 20% deadband divided by the sum of the daily usage for the month.

course of the month provides slightly greater flexibility than a daily cashout at 100% of the daily Chicago citygate price. This flexibility should assist customers that have unpredictable loads, or otherwise cannot closely match deliveries with usage, to avoid daily cashouts and better manage their gas supply costs. Customers still have to ensure that they are in balance at the end of the month to avoid month-end imbalance penalties. Avoiding daily cashouts for imbalances in the 20% deadband also serves as a type of optional balancing service, which is absent from the Company's original proposal but present in the current SC 76 tariff.

IV. Metering and Usage

Q. In your direct testimony, you recommended that a shift to daily balancing be contingent on the provision of more timely usage data to SC 76 customers. Did the Company adopt your proposal to provide more timely usage data to transportation customers?

A. Yes.

Q. How does the Company propose to provide more timely usage information and what is the impact of this proposal?

A. On page 3 of IP Exhibit 8.6, the Company proposes to install mandatory metering and communication equipment at the customer's site. This equipment will make it possible for the Company to provide more timely usage data as I recommended in my direct testimony. The Company

proposes to install the advanced metering and communication equipment at SC 76, SC 65, SC 66 and Rider OT customer sites. Further details related to the cost and implementation of the equipment are addressed on pages 15 through 17 of IP Exhibit 7.19, page 22 of IP Exhibit 5.6, and pages 11-13 of ICC Staff Exhibit 11.0.

The Company originally proposed to reduce the electronic metering fee from its current level of \$40.00 per month to \$18.50 per month to reflect the updated cost of the metering equipment currently installed by the Company. However, the current metering equipment does not provide timely usage information, which is essential to perform efficiently under a daily balancing system, unless the customer is willing to install additional equipment at an additional cost. Therefore, the Company proposes to charge a monthly electronic metering fee of \$18.50 until the more advanced metering and communications equipment can be installed. Once the metering and communications equipment that allows the Company to provide timely usage information is installed, the Company proposes to increase the electronic metering fee to \$44.00 to reflect the cost of the newly installed equipment. The end result for the customer is an increase in the current metering charge by \$4.00 per month (from \$40 to \$44) and a greater ability to obtain timely daily usage information.

Q. Are you satisfied with the Company's proposal to provide customers with daily usage information?

114 A. I believe the proposal is appropriate for SC 76 customers if the
115 Commission orders daily balancing for SC 76 customers. However, the
116 Company proposes to install the advanced metering and communications
117 equipment at SC 65, SC 66 and Rider OT customer sites as well as SC 76
118 customer sites. Since the Company has not demonstrated a need for
119 more expensive metering and communications technology to serve SC 65,
120 SC 66, and Rider OT customers and no other party to this proceeding has
121 made such a recommendation, I recommend that the Company make the
122 advanced metering and communications equipment available as an option
123 to SC 65, SC66, and Rider OT customers that may desire more timely
124 usage information. That is, SC 65, SC 66 and Rider OT customers should
125 have the option to choose between the currently installed metering
126 equipment at a monthly charge of \$18.50 or the more advanced metering
127 and communications equipment at \$44.00 per month.

128

129 **V. Group Balancing Tariff**

130 Q. In your direct testimony, you recommended that a shift to daily balancing
131 be contingent on the implementation of a group balancing tariff. Did the
132 Company agree to implement a group balancing tariff?

133 A. Yes. On page 3 of IP Exhibit 8.6, the Company agrees to implement a
134 group balancing service. The details of the proposed group balancing
135 service are discussed in IP Exhibit 16.1. The Company proposes to make
136 group balancing service available to SC 76 and Rider OT customers

separately. The Company also proposes to leave the current balancing and cashout provisions for SC 76 and Rider OT in place until group balancing service is made available. The Company expects to file a group balancing tariff around mid-September 2005, upon conversion of AmerenIP's billing system into Ameren's Customer Service System. The Company expects the tariff to be very similar to AmerenCIPS Rider G, which has already been developed through a workshop process and approved by the Commission in 2003.

VI. Intervener Position on SC 76 Terms and Conditions

Q. Where do interveners stand on the move from monthly to daily balancing?

A. CNE supports daily balancing contingent on the implementation of group balancing and the availability of timely usage data. Mr. Mallinckrodt prefers the current monthly balancing system to the Company's proposed daily balancing system. However, Mr. Mallinckrodt and Dr. Rosenberg recommend the implementation of optional balancing services, real-time metering, group balancing, and more liberal cashout provisions, that, if adopted, would somewhat mitigate their concerns with daily balancing. The Company has agreed to adopt more liberal cashout provisions, group balancing and provide more timely usage data to transportation customers. While the Company has not adopted Dr. Rosenberg's proposed optional balancing service, they have proposed to allow SC 76

159 customers to carry imbalances within the 20% deadband from day to day
160 throughout the course of the month and avoid daily cashouts.

161

162 **VII. Critical Day Imbalance Charge**

163 Q. On pages 31 through 33 of your direct testimony, you recommended that
164 pipeline penalties be assessed to SC 76 customers by first determining
165 the aggregate imbalance of (i) SC 76 customers as a group and (ii)
166 bundled sales customers as a group. SC 76 customer imbalances in the
167 opposite direction of the system imbalance would net out individual
168 transportation customer imbalances that contributed to the system
169 imbalance. Did the Company adopt your proposal?

170 A. No. The Company continues to argue that bundled sales service
171 customers should be treated as a group, notwithstanding its proposal to
172 treat SC 76 customers individually, for purposes of assessing pipeline
173 penalties on critical days through a Critical Day Imbalance Charge.

174

175 Q. Has the Company persuaded you to change your position on the
176 assessment of the Critical Day Imbalance Charge?

177 A. No. In my opinion, the Company's proposed Critical Day Imbalance
178 Charge discriminates against SC 76 customers because it treats each
179 customer's account individually, whereas the Company essentially
180 aggregates the estimated demand of each individual bundled sales
181 service customer and nominates gas to serve those customers as if the

Company was serving a single customer. The Company does not make a single nomination on behalf of each bundled sales service customer and compare that nomination to each individual bundled sales service customer's usage for the purpose of applying the Critical Day Imbalance Charge. If the Company did treat each bundled sales service customer's account individually, then the Company's proposal to assess the Critical Day Imbalance Charge based on individual SC 76 customer imbalances would be more equitable. The Company's proposal is discriminatory because it treats bundled service customers as a single customer but treats SC 76 customers individually rather than as a group. I continue to support the proposal in my direct testimony, which treats both groups of customers equally.

Q. The Company argues that the adoption of a group balancing service should reduce your concern that the Company's Critical Day Imbalance Charge will discriminate against transportation customers. Do you agree?

A. Group balancing would reduce but not eliminate the inequity in the Company's proposal. Assessing the Critical Day Imbalance Charge to group imbalances treats SC 76 customers that are included in a group as a single customer. The imbalances of individual customers in the group would essentially be netted against others in the group, effectively achieving a similar outcome that would result from my proposal for the customers in that group. However, group-balanced transportation customers would not benefit from diversity between groups and individual

206 SC 76 customers that did not join a group would still be treated
207 discriminatorily by the Company's proposed application of the Critical Day
208 Imbalance Charge. Therefore, I still argue that, just as bundled customers
209 are treated as a single group in assessing penalty charges, SC 76
210 customers should also be treated as a single group.

211

212 Q. When would the Company assess the Critical Day Imbalance Charge?

213 A. The Critical Day Imbalance Charge would only be assessed when the
214 Company declares a critical day and an interstate pipeline assesses
215 penalties for system imbalances. The last critical day declared by the
216 Company was in March 1996.

217

218 Q. On page 5 of IP Exhibit 8.6, Mr. Blackburn argues that entities providing
219 supplies to the distribution system must have an incentive to match
220 deliveries with usage on a critical day. Does your proposal provide an
221 incentive to balance deliveries with usage on a critical day?

222 A. Yes. Under both my proposal and the Company's proposal, SC 76
223 customers risk the assessment of pipeline penalties if they are out of
224 balance. This exposure should provide a sufficient incentive to stay in
225 balance.

226

227 Q. On page 7 of IP Exhibit 8.6, Mr. Blackburn notes that the Company is
228 proposing language that would provide them with the ability to declare a
229 critical day for specific areas of the distribution system. He claims it is not

230 possible to net the imbalances of all SC 76 customers because all SC 76
231 customers will not be located in the specific area where a critical day was
232 declared. How do you respond to this claim?

233 A. If a critical day is called for a specific area, then the subset of SC 76
234 customers located in the area where the critical day was declared should
235 be treated as a group for the purpose of assessing the Critical Day
236 Imbalance Charge.

237

238 **VIII. Administrative Charges**

239 Q. In your direct testimony, you recommended that the administrative costs
240 associated with transportation service be allocated to all customers
241 eligible for transportation service. Did the Company agree to reallocate
242 transportation-specific administrative costs to all customers eligible for
243 transportation service?

244 A. Yes. On page 17 of IP Exhibit 7.19, Company witness Jones accepts my
245 proposal and notes that billing determinants have been updated and
246 Facilities Charges reset to support the change in cost allocation.

247

248 **IX. Cashout Price**

249 Q. In your direct testimony, you recommended that the Company propose
250 tariff language that clarifies the exact price to be used for imbalance
251 cashouts under Rider OT and SC 76. Did the Company clarify the
252 cashout prices in their rebuttal testimony?

253 A. Yes. On page 4 of IP Exhibit 8.6, Mr. Blackburn proposes to add the
254 following language to the Definition of Tariff Terms in the Standard Terms
255 and Conditions: "Monthly Average Adjusted Chicago Citygate Price means
256 the mean of the daily Adjusted Chicago Citygate Prices for the applicable
257 billing period." The Company proposes to cashout monthly SC 76
258 imbalances and Rider OT over-nomination imbalances using this cashout
259 price.

260

261 Q. Does the Company's proposed cashout price language satisfy the
262 concerns with the cashout prices for SC 76 and Rider OT?

263 A. Yes.

264

265 **X. Best Efforts Gas Service**

266 Q. In your direct testimony, you recommended that the Company include
267 language in SC 76 that explicitly states the method for calculating the Best
268 Efforts Gas Cost and describes the treatment of all costs and revenues
269 associated with the service. Did the Company propose such language?

270 A. Yes. On page 2 of IP Exhibit 8.6, the Company proposes to include the
271 following language in the definition of Best Efforts Gas Cost:

272 The Best Efforts Gas Cost shall not be less than the
273 prevailing market price of natural gas for the period BEGS is
274 requested. Any difference between the Best Efforts Gas
275 Cost and the actual cost paid to acquire the gas supply shall
276 be credited to Rider A and Rider B.

277
278

279 Q. Does the Company's proposed definition of Best Efforts Gas Cost satisfy
280 the concerns raised in your direct testimony?

281 A. Yes.

282

283 **XI. Miscellaneous**

284 Q. On page 4 of IP Exhibit 8.6, Mr. Blackburn proposes a number of tariff
285 language changes, such as using the term "usage" instead of "deliveries",
286 which make the Company's tariffs more consistent with other Illinois gas
287 utility tariffs. Do you support these changes?

288 A. Yes.

289

290 **XII. Conclusion**

291 Q. Please summarize your rebuttal testimony.

292 A. In rebuttal testimony, the Company agreed to adopt my recommendations
293 with respect to imbalance cashouts, group balancing, and the provision of
294 timely usage information. The Company's adoption of my proposals on
295 these issues is sufficient for me to support a shift from monthly to daily
296 balancing for SC 76 customers. However, I disagree with the Company's
297 proposal to require the use of advanced metering and communications
298 equipment for SC 65, SC 66, and Rider OT customers. I recommend that
299 these customers be provided with the option to use the current metering
300 technology or the more advanced metering and communications

301 equipment when that technology becomes available in the Company's
302 service territory.

303

304 The Company also proposes tariff language to adopt several other
305 recommendations in my direct testimony related to cashout prices, BEGS,
306 and tariff terminology. The Company's proposed tariff language with
307 respect to cashout prices, BEGS, and tariff terminology is reasonable and
308 should be adopted.

309

310 The assessment of the Company's proposed Critical Day Imbalance
311 Charge is still a contested issue. I continue to support the assessment of
312 the Critical Day Imbalance Charge based first on the aggregate usage of
313 transportation customers.

314

315 Q. Does this conclude your rebuttal testimony?

316 A. Yes.